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SENSITIVE

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SUBJECT: IRAQ'S PDS: USG NEXT STEPS

REF: A. 2004 BAGHDAD 1578

[1](#)B. BAGHDAD 1206

[1](#)C. BAGHDAD 2299

[1](#)D. BAGHDAD 2527

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[1](#)1. (SBU) SUMMARY: Despite the efforts of the Iraqi and U.S. Governments, Iraq's Public Distribution (food ration) System (PDS) continues to deteriorate, leaving a significant portion of the population with few options to supplement their food needs. As the Iraqi Transition Government (ITG) attempts to keep the PDS functional, we believe USG and ITG efforts should be targeted to support those in Iraq who are truly dependent on the PDS to survive. We will continue to urge ITG policymakers to undertake fundamental reform of the PDS at the earliest possible opportunity. At the same time, the focus of the Embassy's efforts will shift from intensive daily monitoring of the PDS' functioning to encouraging and assisting the ITG towards put programs in place now that can create a rudimentary safety net for those most vulnerable as they continue to see less and less of the PDS benefit. END SUMMARY

THE PDS

[1](#)2. (SBU) Iraq's Public Distribution System (PDS) was set up to provide a food ration basket to all Iraqis when U.N. sanctions were imposed following the first Gulf War. While it is reported to have worked relatively well during much of the 1990's, anecdotal and spot reporting from both Baghdad and Regional Embassy Offices over the past several months indicate monthly food ration deliveries are now spotty, at best. Sources at the Ministry of Trade (MOT) report that of an estimated USD 2 billion needed to fund the PDS in the first half of 2005, only approximately USD 341 million was allocated and spent with another \$250 million promised. There have been reports of shortages of individual ration products as well as some that are missing completely from the basket.

[1](#)3. (SBU) Abd' al-Bassit Kareem, the new Iraqi Minister of Trade told us on May 25 (REFTEL C) that many warehouses are empty and deliveries in some areas have not been made in over 2 months. (NOTE: The Minister's information is not always complete, as evidenced by his statements, reported in REFTEL D, that there were sufficient wheat and rice supplies for June and July. END NOTE) Kareem is convinced that close to 40% of Iraq's population has difficulty meeting its food needs without the PDS and tells us that he is committed to reinstating food procurement and distribution as soon as possible. In a recent USAID food security field assessment, 51% of respondent households in 17 poor districts in Iraq indicated that they either "sometimes" or "often" did not have enough food to eat in January, February, and March 2005.

[1](#)4. (SBU) To address this problem, Minister Kareem is working closely with the Ministry of Finance to ensure funding for new food procurements as well as reforming internal Ministry processes. He expects this process to be completed by the end of July. In the interim, the Minister intends to prepare the public for continuing shortages in food basket products and to make procurements from "reliable suppliers of quality products". While the Minister understands our concern about the PDS system and our willingness to assist him, he has not invited our participation in closely monitoring the whole system as we did in 2004 (REFTEL A).

15. (SBU) Given that the Minister has been out of Baghdad for the past several weeks (defending his Ph.D. thesis in Kurdistan), we are not sure what actions are being taken to solve these problems above and beyond his statements. Others within the ITG, however, seem to be moving to at least secure wheat, rice, sugar, ghee and pulses for Ramadan in September of this year. A key test will be current wheat and rice tenders. ITG reps say they will avoid delays in financing by having funds available to the Ministry of Trade as soon as contracts are awarded. If this occurs, it will be a significant ITG improvement in the management of the PDS. In an effort to ensure that essential products of the PDS are delivered in an environment of limited cash flow, the MOT apparently has already decided not to fund some PDS items including soap, detergent and other non-food items.

REFORM

16. (SBU) Senior officials in the Iraqi Interim Government (ITG) tell us they remain disposed to reform the PDS and recognize that this \$4 billion burden on the budget is rife with corruption and inefficiency (REFTEL A). They report that the cost of the actual commodities provided is a fraction of the total \$4 billion, which instead goes to distribution and transportation costs, with a significant degree of corruption built in. Former Deputy Prime Minister and current Planning Minister Barham Saleh has committed to putting PDS reform on the ITG agenda, but in the current political environment both he and Minister Kareem, his former chief of staff and good friend, doubt that large-scale reform is possible. In a recent discussion with Embassy and USAID representatives Minister Kareem indicated that he saw "no need to reform" the PDS until 2007 because "the reforms are theoretical." This contradicts the outlook of Dr. Saleh and DPM Chalabi, who indicated that PDS reform is necessary now and should have private sector participation.

17. (SBU) Dr. Said Hakki, Senior Advisor to Prime Minister Ja'afari, told us on June 29 that the government estimates the total PDS food basket costs \$50 per person but it is worth closer to \$15 by the time it reaches the final consumer. Dr. Hakki suggested to the PM that the Red Crescent Society, of which he is a member, should manage the PDS program. According to Hakki, the Society could receive \$25 per person and be responsible for delivering \$20 of goods to the public, enabling it to use the \$5 difference for other humanitarian purposes. He acknowledged however, that this is "just an idea."

LIMITED INFORMATION, LIMITED OPTIONS

18. (SBU) Our current access to information and resources limit our ability to track the PDS as intensively as we did in the past (REFTEL B). However, we are working with Minister Kareem and Minister Saleh to obtain support for the reinvigoration of plans to carry out two PDS monetization projects, one in the Kurdish North and one in Iraq's South. During a recent meeting and follow-up correspondence with Minister Kareem, USAID proposed a small pilot monetization project in the North, but the Minister indicated that he sees little use in supporting a pilot project that would give his Ministry data by which they could make policy decisions. Barham Saleh continues to be a proponent, and with both Kareem and Saleh's strong ties to Kurdistan, we will continue to support the pilot monetization project in the North as the most realistic immediate option. USAID will not move forward without top-level government buy-in. In addition, close inter-ministerial cooperation will be necessary and may take some time to achieve.

19. (SBU) To that end, at the recent U.S.-E.U. Conference on Iraq in Brussels on June 21-22, 2005 Iraq's Strategic Vision for National Development document clearly states as an objective: "The Government also expects to remove ancillary products included in the PDS basket, as well as implement pilot project for monetization of the PDS's benefits." Also, they intend to "Enact a social safety net program for the poor and vulnerable, which may extend from reform and monetization of the PDS basket." Moreover, Iraq's Vision foresees "removing constraints to private sector development...the future engine of job creation and economic diversifications." This last point is relevant when considering replacing the PDS with a private enterprise driven food system for Iraq. USAID remains in a position to provide some support for a ITG-led reform program for the PDS.

110. (SBU) Over the past 12 months we have made extensive efforts to combine IRMO, FAS, ECON, FCS, MNF-I and USAID

resources to obtain as clear a picture of the PDS system as possible. The results vary depending on Iraqi cooperation. Although we are often invited to help the MOT "in a pinch" the Iraqis have made it clear that the system is now theirs to manage and theirs to dismantle. To a great extent, the PDS, as noted above, is dismantling itself. It continues to fray at the edges with consistent food deliveries replaced by regional shortages of different commodities at any one time. Prices continue to rise, putting some commodities out of reach for the poorer strata of the population and private traders are without the financing/tools/infrastructure to import foodstuffs into the country.

WHAT CAN WE DO? POST CAPABILITIES AND WHAT MAKES SENSE

11. (SBU) With limited ability to influence ITG actions on the PDS and limited resources at the Embassy; we must target our efforts in the areas where we can affect positive change. The Iraqi Brussels Vision Statement clearly sets out goals on the PDS that we can support. (PARA 6) These include:

-- Continue to urge the ITG to pursue PDS reform. By supporting monetization pilots as a first step we will be well placed to continue to push monetization as the first step towards the elimination of the PDS. We should support the intentions of some in the ITG to limit recipients and/or reduce the number of products that make up the PDS food basket.

-- Identifying funding for USAID/NGO/WFP/ITG nutritional programs for primary school children, pregnant and lactating mothers, and malnourished children and their families. This will help provide support to vulnerable populations in targeted districts. We will look for a means by which to expand food security, employment generation, and livelihood improvement programs that either reach or ease the pressure on the 40% of Iraq's population reliant on the PDS for basic necessities. For example, a World Food Program School Feeding Program is currently 67% under funded and with additional financial support could expand quickly to cover more of Iraq's vulnerable population.

--- Exploring other USG program possibilities. Title I subsidized loan programs from USDA could also be considered as a short- to medium-term mean by which to provide the ITG with another option to address the needs of those left behind by a failing PDS.

--- Continue to assist the Ministry of Trade when requested. On several occasions we have been instrumental in facilitating communications between various Ministries involved in the PDS process, obtaining producer and/or contact information, expediting the L/C process or providing training for key players in the PDS contracting and procurement process.

-- Continue to initiate reform dialogue across the ITG, engaging the Ministries of Trade, Planning, and Finance and the office of DPM Chalabi.

--- Continue to monitor the PDS to the best of our ability and share information with the ITG. Although our resources are limited, we will continue to collect information from a variety of sources and pass it along to the ITG.

12. (U) REOs Basrah, Hillah, Kirkuk, Mosul minimize considered.

SATTERFIELD